

**NEW APPLICATION**

**ORIGINAL**



0000064576

**RECEIVED**

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

2006 DEC -8 P 4:46

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MIKE GLEASON  
KRISTIN K. MAYES  
BARRY WONG

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF ARIZONA PUBLIC  
SERVICE COMPANY – APPLICATION FOR  
AUTHORIZATION TO (1) ENTER INTO  
TRANSFORMER SHARING AGREEMENT, (2)  
TRANSFER A PORTION OF THE ROUND  
VALLEY SUBSTATION, AND (3) TRANSFER  
THE WADDELL SUBSTATION, AND (4) FOR  
PRE-APPROVAL OF CERTAIN FUTURE  
TRANSACTIONS UNDER A.R.S. § 40-285(A).

DOCKET NO. E-01345A-06-\_\_\_\_\_

**E-01345A-06-0770**

Arizona Public Service Company (“APS” or “Company”) hereby submits an Application to the Arizona Corporation Commission (“Commission”) pursuant to A.R.S. § 40-285(A) for approval of three specific transactions—a Spare Transformer Sharing Agreement; the sale of a portion of the Round Valley Substation; and the sale of the property on which the Waddell Substation currently is located. Each transaction is discussed further below.

APS also hereby requests that the Commission enter an order authorizing the Company to transfer, sell, mortgage, or lease tangible or intangible property otherwise subject to A.R.S. § 40-285(A), and not exempt under A.R.S. § 40-285(C), subject to certain conditions and limitations set forth below. Property transfers subject to A.R.S. § 40-285(A) not meeting the conditions would continue to require individual applications for approval by the Commission on a case-by-case basis.

**I. Spare Transformer Sharing Agreement**

Working with representatives from approximately 50 utilities and the Edison Electric Institute (“EEI”), APS negotiated a mutual assistance program called the Spare Transformer Equipment Program (“STEP”). The goal of STEP is to ensure that the electric industry can restore service to customers in the event of “coordinated acts of deliberate, documented terrorism, as defined the Homeland Security Act of 2002, 6 U.S.C. §101(15),” while minimizing duplicative purchases of

1 costly transformers. Although the probability of any individual utility incurring debilitating damage  
2 from a deliberate action would be lower than the probability of outages for which utilities routinely  
3 prepare, it is essential that the industry have the capability to recover service following such an event.

4 Reliability standards are designed to ensure the reliability of the electric grid during normal  
5 operations and to minimize impacts from routine failures, but are not designed to address recovery  
6 from deliberate destruction. In addition, although utilities often assist each other with recovery after  
7 storms or other natural disasters, that support generally is limited to sharing labor and technical  
8 expertise. Recovery from deliberate destruction of utility infrastructure will require not only labor  
9 and technical expertise, but the replacement of damaged utility assets such as transformers. Because  
10 transformers have a long manufacturing lead time and are manufactured offshore, the utilities focused  
11 initially on increasing the inventory of spare transformers.

12 After an initial study determined the industry would need large numbers of additional spare  
13 transformers if each utility were to stock sufficient spares for its own recovery, it was determined that  
14 a sharing arrangement would most efficiently use the industry's existing spare transformers and fairly  
15 allocate the responsibility to acquire a limited number of additional spares. The STEP was developed  
16 to address those issues by improving the recovery capability of all participants while reducing the  
17 burden on each individual utility to acquire spare transformers. The Spare Transformer Sharing  
18 Agreement ("Sharing Agreement") documents the STEP and provides considerable flexibility for  
19 utilities to operate and utilize their transformers as they normally would during the course of  
20 business. Signing utilities agree, however, to share their committed transformers with other utilities  
21 if an event that triggers the sharing obligations should occur.

22 APS has determined that it would benefit from participation at this time in the 500/230 kV  
23 voltage class under the STEP. The Company currently has two spare transformers at the Westwing  
24 Substation that would meet its obligation under the Sharing Agreement for that class. If one of the  
25 other utilities participating in the 500/230 kV voltage class experienced a deliberate destructive event  
26 at a substation, APS could be required to sell to that utility one or more of the Westwing Substation  
27 spare transformers committed through the agreement. On the other hand, if APS were to experience  
28 such an event, the Company would be able to quickly acquire replacement transformers from the

1 other utilities participating in the 500/230 kV class. As more utilities join each voltage class, the  
2 Company's obligation will decrease.

3 Although approximately 40 utilities have executed the Sharing Agreement, the agreement  
4 does not become binding on any individual utility until all required approvals are obtained. Thus, the  
5 agreement has been submitted to the Federal Energy Regulatory Commission ("FERC") as required  
6 by the Federal Energy Policy Act for the transfer of transmission facilities. For APS, additional  
7 approvals are needed from the Commission and from those entities with which it jointly owns spare  
8 transformers.<sup>1</sup> Because the Sharing Agreement will provide another level of improved reliability, but  
9 would require APS to sell equipment on very short notice and without the time necessary to file for or  
10 receive Commission approval for such individual asset transfers, the Company requests pre-approval  
11 of its entering into the Sharing Agreement and its participation in the STEP program. Although APS  
12 has elected at this time to participate only in the 500/230 kV voltage class at this time, the Company  
13 continues to evaluate participation in the 345/230 kV and 230/69 kV voltage classes included in the  
14 Sharing Agreement and anticipates participation once there is sufficient participation from other  
15 utilities. APS therefore seeks approval from the Commission at this time to participate in all three  
16 voltage classes.

## 17 **II. Sale of Portion of Round Valley Substation**

18 APS owns and operates the Round Valley Substation in Coconino County, Arizona. Through  
19 that substation, APS has historically provided transmission services for delivery of electric power and  
20 energy to the loads of Southwest Transmission Cooperative, Inc. ("SWTC") for SWTC's member  
21 distribution cooperative, Mohave Electric Cooperative, Inc. Through March 2001, such transmission  
22 services were provided pursuant to a Transmission Agreement Between Arizona Electric Power  
23 Cooperative, Inc. ("AEPCO"), SWTC's predecessor, and APS, dated October 16, 1974, as most  
24 recently amended pursuant to an Offer of Settlement executed by APS and AEPCO in FERC Docket  
25 No. ER99-2852-000 ("Original Contract"). By requisite notice given by APS, the Original Contract  
26 was terminated as of March 31, 2001. Since April 1, 2001, APS has provided transmission services

---

27 <sup>1</sup> APS has received approval from the other Westwing Substation owners to participate in the Sharing Agreement.  
28

1 to AEPCO and subsequently to SWTC pursuant to the rates, terms and conditions set out in APS's  
2 Open Access Transmission Tariff (the "APS OATT").

3 SWTC desires to extricate itself from the costs of transmission service through the Substation  
4 as provided pursuant to APS OATT. APS desires to sell an undivided 50% ownership interest in the  
5 personal property comprising the Substation and to assign to SWTC 50% of the leasehold interest  
6 comprising the real property of the Round Valley Substation (the "Substation Interest"). The sale of  
7 the equipment and partial assignment of the lease for the land will not impact APS's ability to serve  
8 customers. If the sale and lease assignment are approved by the Commission, APS and SWTC also  
9 will enter into a Round Valley Operations and Maintenance Agreement under which APS shall  
10 provide and SWTC shall pay for the operation, maintenance, replacements, upgrades, and other  
11 services in connection with the joint ownership of the Round Valley Substation.

12 The equipment will be retired and the entire sale price of \$450,900 for the Substation Interest  
13 will be applied to reduce total depreciation. This will reduce future depreciation; a 100% benefit to  
14 APS customers. APS will continue to operate and maintain the substation and SWTC will pay APS  
15 those costs associated with operation and maintenance of the portion of the substation facilities that  
16 SWTC purchased.

### 17 **III. Sale of the Waddell Substation**

18 APS has negotiated an agreement subject to Commission approval, for the sale to Suburban  
19 Land Reserve, Inc. ("SLR") of certain real property (the "Cactus & Cotton Site"). Under that same  
20 agreement, SLR agreed to sell to APS another larger parcel of real property (the "Sarival Site," now  
21 called Hearn Substation). The Cactus & Cotton Site currently owned by APS is in use as the Waddell  
22 Substation. During 2008, APS plans to construct a new substation approximately one mile west of  
23 the Waddell Substation. That new substation will be incorporated into the planning for the proposed  
24 Cactus Lane Ranch area development. Once this new substation is constructed and energized, APS  
25 plans to remove its electrical equipment from the Cactus & Cotton Site. At that time, APS would sell  
26 the land at the Cactus & Cotton Site to SLR.

27 The existing Waddell Substation includes 2 feeders and a capacity of approximately 30 MVA.  
28 The substation serves portions of APS's service area located within the County and City of Surprise,

1 and is located at Cotton Lane and Cactus Road. The site is small and a planned road widening  
2 project will further reduce the size of the site. The new substation will be larger and capable of  
3 handling three transformers and twelve feeders with approximately 108 MVA capacity. Growth in  
4 this portion of the West Valley is expected to average 7 to 8 percent per year over the next three years  
5 (2007-2009), twice the growth rate expected for the metropolitan Phoenix area as a whole.<sup>2</sup> This  
6 growth will result in loads exceeding the capability of the existing Waddell Substation.

7 The sale of land will not impact APS's ability to serve customers. The sale price for the  
8 Cactus & Cotton Site is \$63,235, the original cost less depreciation is \$84,501 and the taxes are  
9 \$8,585, which results in a net after tax loss of \$12,681. The road widening of both Cactus Road and  
10 Cotton Lane would have reduced the usable size of the parcel and the value of the site, and the  
11 potential buyers. Therefore, the sale of the property to SLR, who has property adjacent to this site, at  
12 this sale price is reasonable.

#### 13 IV. Pre-Approval for Qualifying Transactions

14 In addition to seeking approval for the three specific transactions discussed above, APS seeks  
15 an order from the Commission authorizing the Company to transfer, sell, mortgage, or lease tangible  
16 or intangible property otherwise subject to A.R.S. § 40-285(A), and not exempt under A.R.S. § 40-  
17 285(C), subject to certain conditions and limitations. Such authorization will facilitate the  
18 Company's ability to respond to changing needs and maximize the efficient use of assets. In  
19 addition, pre-approval should reduce the administrative burden on the Commission. Each of the  
20 specific approvals sought in this Application represents the types of transactions for which the  
21 Company seeks authorization going forward.

22 In order to minimize the transaction costs involved in disposing of properties in subsequent  
23 sales of this nature, and to facilitate the Company's ability to move forward in a timely manner, APS  
24 requests that the Commission authorize APS to enter into qualifying transfers, sales, mortgages, or  
25

---

26  
27 <sup>2</sup> This anticipated 7-8% annual growth rate is for the portion of the West Valley including Goodyear, Surprise, Glendale,  
28 and Sun City/Sun City West. Average annual growth rate in this area is projected to be 6.7% from 2005-2015. The  
average annual growth rates for Buckeye are even higher—15% for 2007-2009 and 13% for 2005-2015.

1 leases under A.R.S. 40-285(A) without being required to file an application for pre-approval. APS  
2 proposes that the following conditions apply:

- 3
- 4 a) The transfer price or transaction price for individual transfers, sales, mortgages, or leases  
shall not exceed \$1,000,000;
  - 5 b) The Company will include in the semi-annual reports filed pursuant to Decision No.  
6 60481 (November 25, 1997), as modified by Decision No. 61708 (May 13, 1999),  
information summarizing each transfer, sale, mortgage, or lease entered into that meets the  
7 above conditions;
  - 8 c) Fifty percent of the net proceeds (the sales price less the remaining book value less tax  
9 impact) on such transfer, sale, mortgage, or lease will be placed in an account that would  
10 accrue interest at the same rate as customer deposits. APS proposes to place any net  
11 proceeds on transfers, sales mortgages or leases under this requested order in the same  
12 account used to implement Decision No. 60481. Consistent with Decision No. 60481, as  
modified by Decision No. 61708, the amount in the account will either be refunded to  
customers or utilized by APS for funding of programs that will directly benefit customers,  
such as public education programs, as directed and approved by Commission Staff.  
Customers receiving service under special contracts will not be eligible.

13 Under the Company's proposal, transfers, sales or mortgages subject to A.R.S. 40-285 (A)  
14 and not exempt under A.R.S. § 40-285(C), but not within the above criteria, would continue to  
15 require individual applications for approval by the Commission on a case-by-case basis.

## 16 V. Conclusion

17 Each of the transactions for which approval is sought in this Application will provide benefit  
18 to APS and its customers and therefore is in the public interest. In addition, the Company's request  
19 for an order authorizing the Company to transfer, sell or mortgage tangible or intangible property  
20 otherwise subject to A.R.S. § 40-285(A), and not exempt under A.R.S. § 40-285(C), subject to certain  
21 conditions and limitations is in the best interest of customers, as it will facilitate the Company's  
22 efficient disposition of property. APS therefore requests approval by the Commission of each  
23 transaction and the requested authorization for future transactions as set forth herein. In addition, due  
24 to the public interest concerns associated with the STEP, APS respectfully requests that the  
25 Commission approve the Sharing Agreement on an expedited base.

26 ...

27 ...

28 ...

1  
2 RESPECTFULLY SUBMITTED this 8<sup>th</sup> day of December, 2006.

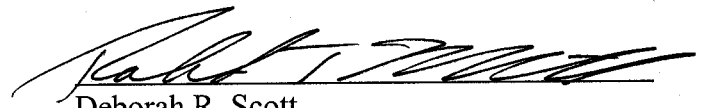
3  
4 PINNACLE WEST CAPITAL CORPORATION

5  
6 /s/ Karilee S. Ramaley

7 Karilee S. Ramaley  
8 Thomas L. Mumaw

9 Attorneys for Arizona Public Service Company

10 SNELL & WILMER L.L.P.

11 

12 Deborah R. Scott  
13 Robert J. Metli

14 Original and 13 copies of the foregoing were  
15 filed this 8<sup>th</sup> day of December, 2006 with:

16 Docket Control  
17 Arizona Corporation Commission  
18 1200 West Washington  
19 Phoenix, Arizona 85007

20 And copies of the foregoing mailed, faxed or  
21 transmitted electronically this 8<sup>th</sup> day of  
22 December, 2006 to:

23 All Parties of Record

24 

25 Rodica Pasula  
26  
27  
28